

A Study of the Impact of Investor Sentiment on Corporate Investment Efficiency

--Based on the Intermediation Effect of Asset Mispricing

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Abstract: We examine how investor sentiment influences the efficiency of corporate investment, with a particular focus on the role of asset mispricing. Our analysis is based on a sample of publicly listed companies in the Shanghai and Shenzhen A-share markets, covering the period from 2014 to 2023. The findings show that the rise of investor sentiment significantly reduces corporate investment efficiency, and this effect is persistent. Meanwhile, asset mispricing plays a partial mediating role between investor sentiment and corporate investment efficiency, i.e., investor sentiment indirectly reduces corporate investment efficiency partly through increasing asset mispricing. In addition, the detrimental effect of investor sentiment on the investment efficiency of firms is more significant in companies with lower analyst attention and lower long-term institutional investor ownership. Finally, managerial overconfidence reinforces the negative impact of investor sentiment on firms' investment efficiency, and this moderating effect is partly realised through the path of asset mispricing. In view of this, corporate management should maintain rational decision-making and avoid being disturbed by market sentiment; financial regulators need to strengthen sentiment monitoring and information disclosure to enhance market transparency; and investors need to enhance rationality and pay more attention to corporate fundamentals and long-term value.

Keywords: Investor sentiment, Asset mispricing, Corporate investment efficiency, Mediation effect

1. Introduction

Recently, due to the influence of various major events, the effect of investor sentiment on corporate investment efficiency has become increasingly pronounced. 2025, the rise of DeepSeek triggered dramatic fluctuations in the global market, the U.S. technology stocks collectively plummeted, Nvidia's share price plummeted by 17%, and the market value of the evaporation of nearly 600 billion U.S. dollars. The NSE market heated up significantly due to the hype around the DeepSeek concept, with the NSE 50 index surging a cumulative 12 per cent in three trading days, and shares of related companies, Parallel Technologies, up 85.5 per cent in three trading days. However, such sentiment-driven rallies often lack fundamental support and tend to lead to asset price overvaluation, which in turn affects the efficiency of companies' investment decisions.

In modern financial markets, corporate investment decisions are not only constrained by traditional economic factors, but also by irrational factors such as investor sentiment [1]. In traditional economic theory, investors are assumed to be completely rational economic beings [2]. However, in reality, investors' decisions are often interfered by factors such as emotions and cognitive biases, which lead to a divergence of asset prices from their intrinsic values, triggering the phenomenon of asset mispricing [3]. The deviation of asset prices from their intrinsic value may provide wrong signals for corporate investment decisions, thus negatively affecting corporate investment efficiency [4]. Asset mispricing, as a mediating factor through which investor sentiment impacts corporate investment efficiency, may affect investment outcomes by changing the cost of capital and through the application of catering theory. Overvalued asset prices may lead firms to overinvest, especially in projects that are inefficient [5]. When share price becomes a performance indicator for corporate managers, corporate managers will make inefficient investment decisions to pander to investors in order to avoid being taken over [6].

Driven by the growth of behavioral finance, an increasing number of studies are now exploring how investor sentiment affects the efficiency of corporate investment, and related studies have successively demonstrated four effects of the equity financing channel [7-9], the rational catering channel [10-12], managerial optimism [13-15], and the debt financing channel [16,17] and other four effects of the path of action. Nevertheless, limited research has explored how investor sentiment affects the efficiency of corporate investment through asset mispricing. In light of this, the present study utilizes the annual data of listed companies in the Shanghai and Shenzhen A-share markets from 2014 to 2023 as the sample. The objective is to uncover the impact of investor sentiment on corporate investment efficiency, specifically focusing on asset mispricing, enriching the literature on the causes and influencing factors of corporate inefficient investment, providing suggestions for China's corporate management, financial regulators, and the investor community, and providing more theoretical basis for enhancing corporate investment efficiency, and to provide more theoretical basis for improving corporate investment efficiency.

There are four main innovations in this paper's research: first, this paper examines both the current and long-term impacts of investor sentiment on the efficiency of corporate investment in the future. Second, it assesses how investor sentiment affects corporate investment efficiency via the intermediary effect of asset mispricing. Third, the study further explores how the effect of investor sentiment on the efficiency of corporate investments varies by considering the level of analysts' attention and share of holdings by long-term institutional investors. Lastly, this paper investigates the moderating role of managerial overconfidence within the connection between investor sentiment and the efficiency of corporate investments through the mediating mechanism of asset mispricing.

2. Theoretical overview and hypotheses

Traditional economics assumes that investors are rational, but a large number of studies have proved that in reality capital markets are not perfect. When making judgement on stock prices, investors are often influenced by emotions, thus making subjective and irrational decisions [18]. Baker and Wurgler [19] point out that when investor sentiment is high, market participants tend to be over-optimistic, driving stock prices higher than their fundamentals values; and when sentiment is low it leads to undervalued stock prices. Due to the lack of market effectiveness [11] and the prevalence of information asymmetry, external investors find it challenging to accurately assess the intrinsic value of an enterprise, while sentiment-driven trading behaviour further amplifies pricing bias and affects the investment efficiency of an enterprise. For example, overvalued stock prices lower the expense of equity capital [7], which prompts firms to rely excessively on external financing and blindly increases the scope of investment, or even allocate funds to projects that have a negative net present value (NPV), which ultimately reduces the investment efficiency of firms. Dong et al.[20]

also found that the management may misinterpret a high stock price as a market recognition of its strategy, and thus push forward with inefficient investment with overconfidence; while in the case of an undervalued stock price, it is overcautious and mistakes the stock price for a high one, which is not the case for a high one. are overly cautious and miss growth opportunities when they are undervalued. In China's institutional environment, management often faces short-term performance pressure [11], and share price volatility caused by asset mispricing can force them to make inefficient investments to cater for market sentiment.

Building on the previous theoretical framework, we can propose the following two key hypotheses:

H1: Investor sentiment is negatively correlated with corporate investment efficiency; the higher the sentiment, the lower the corporate investment efficiency.

Investor sentiment, as an important manifestation of irrational market behaviour, usually refers to investors' emotional response to future market movements. Corporate investment can be affected by investor sentiment to varying degrees [7,10,14]. Following the inflation of stock prices driven by excessive investor optimism, there is a decrease in the difficulty of corporate financing, overconfidence of managers and catering to market sentiment, which in turn reduces the efficiency of corporate investment.

H2: Asset mispricing acts as a partial mediator in the connection between investor sentiment and the investment efficiency of firms. In other words, investor sentiment indirectly lowers firms' investment efficiency by worsening asset mispricing.

Behavioural finance theory suggests that stock prices diverge from their true value due to investor irrationality and limited arbitrage, and it considers investor sentiment as a market phenomenon in which stock prices diverge from their true value [21]. Investor sentiment plays a key role among the various influencing factors, affecting asset pricing, and optimism or pessimism in investor sentiment can lead to overvaluation or undervaluation of asset prices [22]. When investor sentiment is overly optimistic, firms may overinvest in overvalued stock prices, leading to a decrease in investment efficiency; when sentiment is pessimistic, it may cause firms to miss investment opportunities and reduce the marginal output of capital.

3. Research design

3.1. Description of variables

Explained variable: firms' investment efficiency. Drawing on Richardson [23], this paper measures the extent of firms' inefficient investment by building the following model to measure its residuals:

$$\text{Inv}_{i,t} = \alpha_0 + \alpha_1 \text{Size}_{i,t} + \alpha_2 \text{Lev}_{i,t} + \alpha_3 \text{Growth}_{i,t} + \alpha_4 \text{Cash}_{i,t} + \alpha_5 \text{Age}_{i,t} + \alpha_6 \text{Ret}_{i,t} + \sum \text{Industry} + \sum \text{Year} + \varepsilon_{i,t} \quad (1)$$

Inv represents the new investment outlays, which include spending on acquiring and constructing fixed assets, intangible assets, and other long-term assets during year t; Size is defined as the natural log of total assets at the end of the period.; Lev represents the gearing ratio at the end of the period, while Growth refers to the firm's Tobin's Q at the end of the period; Cash indicates the ratio of net cash flow to total assets at the close of the period.; Age responds to the company's listed lifespan; and Ret is the firm's yearly return on individual shares. $\sum \text{Industry}$ and $\sum \text{Year}$ represent industry and year fixed effects, respectively; $\varepsilon_{i,t}$ is the random error term. The regression of the above model yields $\varepsilon_{i,t}$ represents the firm's inefficient investment level, and this paper adopts the absolute value of the random error as a measure of the firm's investment efficiency (Inv). This metric is considered negative, with a higher value indicating a greater level of inefficient investment by the company.

Explanatory variable: The investor sentiment variable is based on the research conducted by Baker and Wurgler [19], Jin Guanghui [12], Tang Wei and Zhai Shengbao [24]. In constructing the investor sentiment composite index (Sent), the chosen indicators include the operating income growth rate, return on equity, stock returns, asset-to-liability ratio, and company size, and the indicators are orthogonalised to the four indicators related to investor sentiment, namely, ratio of book value to market value, stock return ratio, and stock turnover ratio. Momentum, Tobin's Q, and stock turnover are orthogonalised with four indicators related to investor sentiment in order to remove the interference of fundamental factors on investor sentiment. The residual values are processed and then analyzed using principal component analysis, with the components that account for 85% of the cumulative explained variance being selected and synthesised into the final investor sentiment indicator (Sent).

Mediating variable: asset mispricing. In this study, we adopt the approach from Rhodes-Kropf et al. [25] to measure the level of asset mispricing by comparing a firm's market value with its intrinsic value. Following equation (3), we perform regressions separately by year and each industry's partial regression coefficients are obtained for every year. The regression coefficients for the same industry across years are then averaged to derive the estimation equation for that industry. By substituting the specific values of a company's variables into the industry's estimation equation, we estimate the corresponding base value (V). Finally, the level of mispricing, denoted as Misp, is calculated. We construct the following model:

Mediating variable: asset mispricing. In this paper, we adopt the approach from Rhodes-Kropf et al. [25] to measure the level of asset mispricing by comparing a firm's market value with its intrinsic value. Following equation (3), we perform regressions separately by year and industry to obtain the partial regression coefficients for each industry in each year $\{\beta_0, \beta_1, \beta_2, \beta_3, \beta_4\}$; the regression coefficients for the same industry across years are then averaged to derive the estimation equation for that industry. By substituting the specific values of a company's variables into the industry's estimation equation, we estimate the corresponding base value (V). Finally, the level of mispricing, denoted as Misp, is calculated at $\ln(M/V)$. We construct the following model:

$$\ln M_{i,t} = \beta_0 + \beta_1 \ln(\text{Asset})_{i,t} + \beta_2 \ln(\text{Net})_{i,t} + \beta_3 I_{(<0)} \ln(\text{Net})_{i,t} + \beta_4 \text{Lev}_{i,t} + e_{i,t} \quad (2)$$

Where M refers to the company's market capitalization, which is determined by adding the market value of the outstanding shares to the book value of the non-outstanding shares; Asset represents the firm's total assets, while Net refers to the absolute value of the company's net profit; $I_{(<0)}$ is a binary variable, taking the value of 1 when the firm experiences a negative net profit, and 0 in all other cases; Lev stands for the firm's leverage ratio; V denotes the firm's base value; and the residual $e_{i,t}$ represents the level of asset mispricing.

Control variables: To account for financial and other factors that may influence a company's investment efficiency, this study incorporates various control variables, including company size (Size), leverage ratio (Lev), the percentage of shares owned by the largest shareholder (Large), return on net assets (Roe), the book-to-market ratio (Mb), annual turnover rate (Turnover), growth rate of core business revenue (Growth), years since the company was listed (Age), and the ownership structure of the company (Soe). Definitions of all these variables are provided in Table 1.

3.2. Modelling

This paper begins by examining how investor sentiment influences corporate investment efficiency in order to assess hypothesis 1. The baseline model is formulated as follows.:

$$\text{Inv}_{i,t} = \gamma_0 + \gamma_1 \text{Sent}_{i,t} + \sum \text{Controls} + \sum \text{Industry} + \sum \text{Year} + \varepsilon_{i,t} \quad (3)$$

where the subscripts i, t denote individuals and years, respectively. The explanatory variable $Inv_{i,t}$ is the level of firms' inefficient investment. The explanatory variable $Sent_{i,t}$ is a composite index of investor sentiment. Controls The variables Industry and Year represent control variables, industry-level Firm-specific fixed effects and year-specific fixed effects. $\varepsilon_{i,t}$ are random error terms.

In order to test the possible mediating effect of asset mispricing factors in the path of investor sentiment in influencing the degree of corporate investment, the coefficients of the stepwise regression counterpart variables are examined with reference to the testing procedure for testing the mediating effect proposed by Wen Zhonglin et al. [26].

Based on model (3), we model the following:

$$Misp_{i,t} = \delta_0 + \delta_1 Sent_{i,t} + \sum \text{Controls} + \sum \text{Industry} + \sum \text{Year} + \varepsilon_{i,t} \quad (4)$$

$$Inv_{i,t} = \varphi_0 + \varphi_1 Sent_{i,t} + \varphi_2 Misp_{i,t} + \sum \text{Controls} + \sum \text{Industry} + \sum \text{Year} \quad (5)$$

Table 1: The table of variable definition

Variable category	variable symbol	variable name	define
explanatory variable	Inv	New investment expenditures	Additional investment expenditures, as described above
explanatory variable	Sent	Investor sentiment	Composite index of investor sentiment, as described above
intermediary variable	Misp	Degree of asset mispricing	Asset mispricing level, calculated by equation (2)
control variable	Size	Company size	The natural log of total assets at the end of the period
	Lev	Gearing	Total company liabilities divided by total assets
	Large	Proportion of shares held by the largest shareholders	Shares held by the largest shareholder as a percentage of total shares
	Roe	Return on Equity	Net profit for the period / owners' equity at the end of the period
	Mb	Ratio of book value to market value	Book value / market value of the company
	Turnover	Annual turnover rate	Number of shares traded/shares outstanding for the year
	Growth	Growth rate of main business income	(Income from main operations in the current period and previous period) as a ratio to income from the previous period
	Age	Years since the company went public	Years since the establishment of the company
	Soe	Nature of shareholding	Dummy variable, 1 for SOEs, 0 for others

3.3. Sample selection

This research utilizes annual data from companies listed on the Shanghai and Shenzhen A-share markets between 2014 and 2023 as the sample for analysis. The sample is filtered based on specific criteria: first, data from firms in the financial sector are excluded; second, companies labeled as ST,

ST*, or PT are removed; third, firms delisted during the research period are omitted; and fourth, observations with missing data are discarded. After applying these criteria, 27,500 firm-year observations are retained. To reduce the influence of outliers on the empirical findings, continuous variables are Winsorized at the 1% and 99% percentiles, effectively trimming outliers. All data are sourced from CSMAR.

Descriptive statistics for the main variables are presented in Table 2. The mean value of corporate inefficient investment (Inv) is 0.04, indicating that the sample's average inefficient investment stands at 4%. The mean investor sentiment (Sent) is 0.04, with a standard deviation of 0.54, a maximum of 1.94, and a minimum of -0.83, suggesting an average investor optimism of 4% in the A-share market, with significant variations across firms. The mean value of asset mispricing (Misp) is 0.31, demonstrating that asset mispricing is widespread in China's market.

Table 2: Descriptive statistics table

variable name	sample size	average value	(statistics) standard deviation	minimum value	median	maximum values
Inv	27500	0.04	0.05	0	0.02	0.28
Sent	27500	0.04	0.54	-0.83	-0.06	1.94
Misp	27500	0.31	0.26	0	0.24	1.30
Large	27500	33.03	14.62	8.09	30.59	72.80
Size	27500	22.43	1.30	20.06	22.24	26.44
Roe	27500	0.04	0.15	-0.85	0.06	0.31
Lev	27500	0.43	0.20	0.06	0.42	0.89
Mb	27500	0.62	0.26	0.12	0.61	1.22
Turnover	27500	5.67	4.38	0.56	4.39	22.41
Growth	27500	0.14	0.36	-0.54	0.08	2.06
Age	27500	11.89	7.83	2	10	33
Soe	27500	0.34	0.47	0	0	1

4. Empirical analysis

4.1. The effect of investor sentiment on corporate investment efficiency

We perform the regression analysis on the sample data based on equation (3), and the findings are shown in Table 3. Column (1) demonstrates the results after incorporating control variables and accounting for fixed effects. The coefficient for Sent is 0.017, and it is statistically significant at the 1% level. This suggests that investor sentiment has a significantly positive impact on corporate inefficient investment, meaning that an increase in investor sentiment results in a reduction in corporate investment efficiency, assuming all other factors remain unchanged. This finding supports Hypothesis 1.

The regression results in In Column (2) of the one-period lagged Sent variable are reported. From this, we can draw two conclusions: first, the coefficient for the lagged Sent is 0.00666, and it is statistically significant at the 1% level, indicating that the endogeneity issue in the regression model is mitigated to some extent, thereby reinforcing the robustness of the model. Second, the negative impact of investor sentiment on corporate investment efficiency persists over time.

Results from the stepwise regression test are shown in columns (3) and (4) of Table 3. In column (3), the Sent coefficient is 0.017, and it is statistically significant at the 1% level. In column (4), the coefficient for Misp is significantly positive at the 1% level, while the coefficient for Sent is 0.016, also significant at the 1% level. These regression results suggest that asset mispricing partially

mediates the connection between investor sentiment and the efficiency of corporate investments, meaning that high investor sentiment impairs investment efficiency, partly due to increased asset mispricing. Sobel's test results confirm that the coefficient is statistically significant at the 1% level level, and the Bootstrap test reveals that 95% confidence range excludes zero, further validating these conclusions. This finding supports Hypothesis 2.

Table 3: The influence of investor sentiment on corporate investment efficiency

variant	(1)	(2)	(3)	(4)
	full sample	Sent lag 1	full sample	full sample
	Inv	Inv	Misp	Inv
Constant	0.150***	0.107***	0.802***	0.145***
	-0.0078	-0.0077	0.0434	0.0079
Sent	0.0170***	0.00666***	0.132***	0.0162***
	-0.0008	-0.0007	0.0045	0.0008
Misp				0.00614***
				0.0011
Large	-0.0000116	-0.0000106	-0.0000118	-0.0000115
	0.0000	0.0000	0.0001	0.0000
Size	-0.00533***	-0.00308***	-0.0178***	-0.00522***
	-0.0003	-0.0003	0.0019	0.0003
Roe	0.00431**	0.000988	-0.00565	0.00434**
	-0.0020	-0.0020	0.0109	0.0020
Lev	0.0112***	0.0115***	-0.0662***	0.0116***
	-0.0017	-0.0018	0.0096	0.0017
Mb	0.00727***	-0.0118***	-0.167***	0.00829***
	-0.0019	-0.0017	0.0104	0.0019
Turnover	-0.000757***	-0.000128*	-0.00865***	-0.000704***
	-0.0001	-0.0001	0.0004	0.0001
Growth	0.0208***	0.0182***	0.0256***	0.0206***
	-0.0008	-0.0008	0.0043	0.0008
Age	-0.000361***	-0.000233***	0.00456***	-0.000389***
	0.0000	0.0000	0.0002	0.0000
Soe	-0.00646***	-0.00655***	0.00165	-0.00647***
	-0.0007	-0.0007	0.0039	0.0007
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Sample size	27500	25237	27500	27500
R2	0.133	0.127	0.173	0.134
SobelZ				0.00044776***
Bootstrap				0.0000***

4.2. Robustness tests

4.2.1. Propensity score matching (PSM)

Enterprise investment efficiency may be affected by the enterprise itself and the market environment; enterprise investment efficiency may inversely affect investor sentiment, and there is a bidirectional

causal relationship. Based on this, this paper adopts PSM measure to alleviate the possible endogeneity problem. The detailed procedure is outlined below: first, the treatment group is composed of samples with investor sentiment (Sent) above the median, while the non-treatment group includes the remaining samples. All control variables are included as covariates. Second, propensity scores are calculated and matched among the samples in the treatment group and those in the control group. After matching, the average treatment effect (ATET) is calculated, and its coefficient is 0.003 and does not reach significance at the 10% level, suggesting no meaningful difference between the treatment and non-treatment groups, which passes the endogeneity.

4.2.2. Replacing measures of investor sentiment

To verify the robustness of the empirical findings, this paper draws on the research of Yang Xiaolan et al.[27] and Antweiler et al. [28], taking the posts on the Oriental Wealth Net's stock bar of all listed companies from 2014 to 2023 as the object of the study. The natural logarithm of the count of 'positive' posts, incremented by one, is subtracted from the natural logarithm of the count of 'negative' posts, also incremented by one, and a new investor sentiment indicator (I-Sent) is constructed to replace the investor sentiment (Sent), and inefficient investment is classified into the types of over-investment and under-investment (Inv is taken as the absolute value). We also classify corporate inefficient investment into overinvestment and underinvestment (before taking the absolute value of Inv, overinvestment is overinvestment and underinvestment is underinvestment), and then re-run the regression analyses.

The empirical regression results (table omitted for brevity) reveal that the coefficients of investor sentiment in the categories of inefficient investment and overinvestment are 0.00204 and 0.00520, respectively, both of these exhibit statistical significance at the 1% level. The coefficient for underinvestment is -0.00143, significant at the 10% level. These results indicate that an increase in investor sentiment negatively impacts corporate investment efficiency, exacerbating the issue of overinvestment while somewhat alleviating underinvestment, which is consistent with the findings of the existing study [29] and in line with the previous conclusions. Therefore, the main effect regression in this paper is robust.

4.3. Heterogeneity test based on analyst focus and long-term institutional investor shareholdings

It has been shown[30,31] that The greater the attention analysts give to a firm and as the proportion of shares owned by institutional investors increases, more information about the firm is revealed, leading to increased information transparency. This transparency enhances the quality of corporate disclosure and helps mitigate the influence of investor sentiment. Therefore, to examine how analysts' attention and the percentage of shares owned by institutional investors affect the relationship between investor mood and the effectiveness of corporate investments, this study, drawing on existing literature, applies the natural logarithm of the total number of securities analysts following the same publicly traded company as a measure of analysts' attention and draws on the research of Liu Jingjun et al.[32], which categorises the institutional investors categorized into long-term and short-term institutional investors according to the average turnover rate of the investors. The research sample is divided into four groups of high and low analyst attention and high and low shareholding ratio of long-term institutional investors (equal to or above the median is considered high, and vice versa is low), and the test of main regression is repeated respectively.

Subgroup regression results show (table omitted based on space) that the coefficient for Sent is 0.0195 and is statistically significant at the 1% level in the group with lower analyst attention, while it is 0.154 and significant at the 1% level in the group with high analyst attention. In the group with low

long-term institutional investor ownership, the coefficient for Sent is 0.0197 and is statistically significant at the 1% level, while in the group with high long-term institutional investor ownership, the coefficient is 0.147 and significant at the 1 per cent level; and the coefficient difference test shows that the disparity between the two is statistically significant in both categories. This suggests that the enhancement of investor sentiment on the level of firms' inefficient investment is better in firms with low long-term institutional investor ownership and low analyst attention.

4.4. Further studies

In corporate investment decision-making, managerial overconfidence often serves as a moderating factor in how investor sentiment has an impact on the efficiency of corporate investment. However, limited research has explored the influence of managerial overconfidence as a moderating factor through the mediating mechanism of asset mispricing. As a result, this study seeks to explore how managerial overconfidence influences the relationship between investor sentiment and the efficiency of corporate investment, with asset mispricing acting as a mediator.

This study builds upon the work of Jiang Fuxiu et al. [33] to assess the extent of managerial self-confidence by the ratio of the top three executives' remuneration to the remuneration of all managers, which is greater than the sample mean is regarded as managerial over-confidence, and vice versa is not. In this paper, regression analysis is performed using the mediated moderated effects test method, and the outcomes of the regression analysis are presented in Table 7.

Columns (1) and (2) in Table 4 display the changes in the interaction effect before and after including managerial overconfidence (OC). The interaction term between Sent and OC has a coefficient of 0.0172, which is statistically significant at the 1% level, indicating that the negative relationship between investor sentiment and corporate investment efficiency is strengthened by managerial overconfidence, with overconfidence playing a positive moderating role. Columns (3) and (4) assess the mediating role of asset mispricing in the moderating effect of managerial overconfidence. The coefficient for Misp is 0.00548, which is statistically significant at the 1% level. Additionally, the results of Sobel's test confirm the presence of a mediating moderating effect, suggesting that managerial overconfidence partially enhances the inverse connection between investor sentiment and the efficiency of corporate investment through asset mispricing.

Table 4: Moderating effects of managerial overconfidence

variant	(1)	(2)	(3)	(4)
	Inv	Inv	Misp	Inv
Constant	0.152***	0.137***	0.748***	0.138***
	-0.0079	-0.0081	-0.0438	-0.0080
Sent	0.0172***	0.00589***	0.103***	0.0140***
	-0.0008	-0.0019	-0.0052	-0.0009
OC		0.00921***	0.0176***	0.00299***
		-0.0015	-0.0030	-0.0005
Sent × OC		0.0172***	0.0571***	0.00452***
		-0.0026	-0.0053	-0.0010
Misp				0.00548***
				-0.0011
Controls	Yes	Yes	Yes	Yes
sample size	27717	27717	27440	27440

5. Conclusions and insights

This study delves into the mechanism through which investor sentiment impacts the efficiency of corporate investment through asset mispricing. The above study shows that, firstly, the rise of investor sentiment exacerbates the extent of corporate inefficient investment by increasing the level of asset mispricing and thus, a strong inverse correlation exists between investor sentiment and the efficiency of corporate investment, and there is a persistent effect. The empirical results after using the PSM method and replacing the investor sentiment indicator show that the main regression effect is robust and verifies that firms' overinvestment will continue to deteriorate due to the rise in investor sentiment, whereas firms' underinvestment will be mitigated to a certain extent. Second, asset mispricing plays a partially mediating role between investor sentiment and corporate investment efficiency, i.e., rising investor sentiment partially exacerbates the extent of firms' inefficient investment by increasing the level of asset mispricing. Third, the adverse effect of investor sentiment on the investment efficiency of firms is more pronounced in firms with lower analyst attention and lower long-term institutional investor ownership, suggesting that information transparency and institutional investors' investment propensity are effective in mitigating the interference of investor sentiment in firms' investment decisions. Fourth, managerial overconfidence reinforces the negative impact of investor sentiment on firms' investment efficiency, and this moderating effect is partially realised through the path of asset mispricing.

Building on the findings above, this paper offers several recommendations to reduce the adverse effects of investor sentiment on the efficiency of corporate investment. First, corporate management needs to remain rational, consider the possible influence of investor sentiment on investment choices, and avoid making long-term investment decisions due to market sentiment fluctuations and short-term stock price performance. Second, financial regulators should strengthen the monitoring and guidance of investor sentiment, improve the information disclosure system, and reduce irrational behaviour in the market. Thirdly, investors should improve their own investment level and rational awareness, paying more attention to corporate fundamentals and long-term value rather than relying on market sentiment to make investment decisions.

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